

OFFICE OF AUDITS & ADVISORY SERVICES



ASSESSOR/RECORDER/COUNTY CLERK OFFICERS' TRANSITION AUDIT

FINAL AUDIT REPORT

Chief of Audits: [James L. Pelletier, CIA, CICA](#)
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July 27, 2011

TO: Ernest J. Dronenburg, Jr., Assessor/Recorder/County Clerk
Assessor/Recorder/County Clerk

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: ASSESSOR/RECORDER/COUNTY CLERK OFFICERS' TRANSITION AUDIT

Enclosed is our report on the Assessor/Recorder/County Clerk Officers' Transition Audit. We have reviewed your responses to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Kathleen Whitehead at (858) 495-5653.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:KMW:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Brian M. Hagerty, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Assessor/Recorder/County Clerk (ARCC). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, David L. Butler, and incoming officer, Ernest J. Dronenburg, Jr. took appropriate actions and filed complete and accurate reports as of December 27, 2010 in compliance with California Codes, County regulatory requirements, and County policies and procedures. These requirements were explained in the instruction letter provided to each officer.

Background

The County Charter requires that the OAAS conduct such an audit when County officers leave or assume office to determine if certain affidavits, authorizations, disclosures, and reports are properly completed and processed. These actions provide for an orderly transition of officers, establish proper accountability for public assets and promote the County's General Management System (GMS), including its key disciplines of accountability/transparency, fiscal stability, and continuous improvement.

Audit Scope & Limitations

The reports are the responsibility of the officer who signs them. The OAAS' responsibility is to provide an opinion on the reports based upon the audit.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS reviewed all the reports filed by the outgoing and incoming officers and obtained supporting documentation to test completeness and accuracy of the reports.

AUDIT RESULTS

Summary

While required forms were filed in compliance with California Codes, County regulatory requirements, and County policies and procedures in connection with an officer's transition, multiple exceptions were identified in the reporting of trust funds, fixed assets, and minor equipment as noted below:

Finding I:

Report of Trust Liabilities Balances Overstated

OAAS determined that the balances reported on the Report of Trust Liabilities for the following six trust funds are overstated since the amount reported does not account for the expenditures that have occurred as of the transition date:

- E Recording #61317
- Recorder Modernization #61318
- Recorder Vital Health Stats #61321

- Assessor/Recorder AB719 Property Tax Admin #71000
- Recording Redaction Fund #61316
- Recorder Micrographics #61315

According to ARCC's staff, low orgs were established to account for the balances for each of the trust funds, however, some of the expenditures including salaries and benefits, maintenance contracts, and other expenses are not being captured under the low orgs. As a result, ARCC cannot easily retrieve the balance of the expenditures as of the transition date.

According to the County's Fiduciary Fund Accounting and Administrative Guide, each department is responsible for operational management of the trust funds it owns. The responsibility includes ensuring the integrity of internal controls for disbursements, and also ensuring that cash transfers are timely and that funds are reconciled regularly.

Recommendation:

ARCC should ensure that all expenditures are captured within the specific low org established for each trust fund to maintain an accurate balance of expenditures.

Finding II:

Inaccurate Fixed Asset Report

During review of the Capitalized Property Inventory Certificate and testing of a sample of 41 capital assets, OAAS noted exceptions in the following areas:

- **Assets Reported But Not Sighted.** The ARCC reported 17 unsighted items with a total cost of \$216,314 on the Fixed Asset Reports for Property Charged But Not Sighted (Form 243) attached to the Capitalized Property Inventory Certificate as part of a physical inventory performed as of the transition date. These items on the Form 243 included items that have been sent to Property Disposal and unsighted for two consecutive physical inventories. However, a Form 253 was not submitted to have these items removed from Oracle Fixed Asset Module (OFAM).
- **Sighted Items But Not Reported.** The ARCC reported three sighted items not in Oracle with a total cost of \$32,850 on the Fixed Asset Report for Property Sighted But Not Charged (Form 243) attached to the Capitalized Property Inventory Certificate as part of a physical inventory performed as of the transition date. However, a Form 253 was not submitted to add the assets to Oracle.
- **Asset Location and Asset Description Inaccuracies.** Out of the sample of 41 assets, 3 assets (7%) had the incorrect location codes on the Oracle Fixed Asset Register Report (FARR) and one item contained an incorrect description. Per ARCC, these assets were moved to San Marcos for a project but a Form 253 was not submitted to change the asset location in Oracle. Additionally,

OAAS noted that a file system with a description of a Mobile Aisle System/Drawing did not match the invoice description and was difficult to locate since it did not contain an asset tag.

- **Missing Asset Tags.** Out of sample of 41 capital assets tested, 4 assets (10%) did not have the required asset tags affixed, including the Mobile Aisle System/Drawing previously cited. According to ARCC, two out of four asset tags were missing due to vendor changing. The remaining two assets (file systems) did not have asset tags affixed at acquisition.

Most reporting errors were a result of inadequate policies and procedures related to updating the OFAM to reflect acquisitions, dispositions, and adjustments following a physical inventory. In addition, missing asset tags may result in inaccurate or incomplete inventories due to the inability to confirm whether the sighted item is the item listed on the report.

The County of San Diego Administrative Manual - Item Number: 0050-02-01 (COSD Admin Manual) requires department heads to be responsible for County property (assets). These responsibilities include the identification and control of these assets, the filing of inventories, and the submission of reports as specified by the Board of Supervisors. In addition, the COSD Admin Manual states that identifying labels should be obtained from Auditor and Controller (A&C) and attached to assets. The County of San Diego Fiscal Year-End Closing Manual requires the department to correct or enter any missing location code numbers to correspond with the physical location of the property using the code numbers established in the location code index.

Recommendation:

To improve the accuracy and reliability of capital assets reporting, ARCC should:

1. Improve procedures for maintaining accurate reporting of all fixed assets, in accordance with the COSD Admin Manual. This should include, but not limited to:
 - a. Ensuring that acquisitions and dispositions are recorded properly;
 - b. Ensuring that the OFAM contains correct descriptions to properly identify the assets; and
 - c. Ensuring that all capital assets have an asset tag affixed.
2. Strengthen controls over physical inventory process. This should include, but not limited to:
 - a. If new assets are noted at time of physical inventory, a Form 253 should be submitted to the A&C - Project, Revenue, and

Grants Accounting (PRGA) Division to make the addition to the OFAM; and

- b. If assets are reported as missing, these assets should be reconciled to the salvage records to determine if the item was sent to salvage. If the asset was sent to Property Disposal, the department should follow-up to determine that the status of the asset is correct in the OFAM.
3. Submit a Form 253 to correct discrepancies noted which includes removing missing assets, adding assets, updating locations for all valid assets with location inaccuracies, and changing the name of the Mobile Aisle System.

Finding III:

Minor Equipment Control Procedures should be Improved

OAAS tested a sample of minor equipment items and noted exceptions in the following areas:

- **Incorrect Amounts Stated on the Minor Equipment Listing.** Out of a sample of 18 minor equipment items, the amounts listed for 5 items (28%) did not reconcile with the invoiced amount. The following discrepancies occurred on the minor equipment listing:
 - One item, a 48" oblong conference table was overstated by \$1,078 at the Chula Vista location;
 - Two items, a Hitachi projector was understated by \$2,437, and a paging system was overstated by \$214 at the Kearny Mesa location; and
 - Two items, a JVC television was overstated by \$279 and a safe was understated by \$891 at the El Cajon location.
- **Missing County of San Diego Decals.** ARCC's workstations at Chula Vista and San Marcos did not have any "Property of the County of San Diego" decals affixed to them. According to ARCC's Asset Coordinator, decals are not affixed to any of the workstations. According to A&C - PRGA, each cubicle should have at least one decal.

According to the COSD Admin Manual, department heads are required to maintain listings of minor equipment items for which they are responsible by adding new items as they are received and deleting items that are disposed of or no longer in use. Lists should identify the quantity and nature of the minor equipment items, their location and assigned value. Departmental listings of minor equipment should also provide sufficient information to permit the County to establish appropriate levels of insurance coverage and to prepare claims for insurance recovery in the event of loss.

In addition, COSD Admin Manual states departments should establish a control system over all minor equipment and affix unnumbered "County of San Diego" decals to these assets.

Recommendation:

To improve the controls around minor equipment, ARCC should:

1. Implement procedures for maintaining accurate reporting for all minor equipment items within ARCC in accordance with COSD Admin Manual. This should include but not limited to:
 - a. Ensure that when item is purchased, the invoice amount is recorded on the minor equipment listing and that supporting documentation is maintained to support the amount recorded; and
 - b. Ensure that decals are affixed to all minor equipment.
2. Correct amounts listed on the minor equipment listing for the items listed above.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

DEPARTMENT'S RESPONSE



**COUNTY OF SAN DIEGO
OFFICE OF THE
ASSESSOR/RECORDER/COUNTY CLERK**

INTER-DEPARTMENTAL CORRESPONDENCE

July 25, 2011

To: James Pelletier
Chief of Audits

From: Ernest J. Dronenburg, Jr.
Assessor/Recorder/County Clerk

RECEIVED

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OFFICE OF AUDITS &
ADVISORY SERVICES

Response to Final Draft Report – Assessor/Recorder/County Clerk Officers' Transition Audit

As requested in your memo dated June 17, 2011 relating to the transition audit conducted by your department, the following is the Assessor/Recorder/County Clerk's (ARCC) response to the audit findings and recommendations:

Finding I: Report of Trust Liabilities Balances Overstated

OAAS determined that the balances reported on the Report of Trust Liabilities for the following six trust funds are overstated since the amount reported does not account for the expenditures that have occurred as of the transition date:

- E-Recording # 61317
- Recorder Modernization # 61318
- Recorder Vital Health Stats # 61321
- Assessor/Recorder AB719 Property Tax Admin # 71000
- Recording Redaction Fund # 61316
- Recorder Micrographics # 61315

According to ARCC's staff, low orgs were established to account for allowable expenditures budgeted for each of the trust funds, however, some of the expenditures including salaries and benefits, maintenance contracts, and other expenses are not being captured under the low orgs. As a result, ARCC could not easily validate the outstanding balance as of the transition date.

According to the County's Fiduciary Fund Accounting and Administrative Guide, each department is responsible for operational management of the trust funds it owns. The responsibility includes ensuring the integrity of internal controls for disbursements, and also ensuring that cash transfers are timely and that funds are reconciled regularly.

OAAS Recommendation:

ARCC should ensure that all expenditures are captured within the specific low org established for each trust fund to maintain an accurate method of tracking expenditures.

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Action Plan: *The ARCC concurs with this recommendation. During fiscal year-end activities for 2010/11, all allowable contract expenditures were correctly assigned to the appropriate trust fund low org. Contract renewals were submitted using the appropriate POETA to reflect the correct low org.*

Planned Completion Date: *Completed*

Contact Information for Implementation:

*Karen Ochoa, Financial Policy & Planning Officer
Telephone: (619) 531-6249*

Finding II: Inaccurate Fixed Asset Report:

During review of the Capitalized Property Inventory Certificate and testing of a sample of 41 capital assets, OAAS noted exceptions in the following areas:

- **Assets Reported but Not Sighted:** The ARCC reported 17 unsighted items with a total cost of \$216,314 on the Fixed Asset Report for Property Charged but Not Sighted (Form 243) attached to the Capitalized Property Inventory Certificate as part of a physical inventory performed as of the transition date. These items on the Form 243 included items that have been sent to Property Disposal and unsighted for two consecutive physical inventories. However, a Form 253 was not submitted to have these items removed from Oracle Fixed Asset Module (OFAM).
- **Sighted Items But Not Reported:** The ARCC reported three sighted items not in Oracle with a total cost of \$32,850 on the Fixed Asset Report for Property Sighted but Not Charged (Form 243) attached to the Capitalized Property Inventory Certificate as part of a physical inventory performed as of the transition date. However, a Form 253 was not submitted to add the assets to Oracle.
- **Asset Location and Asset Description Inaccuracies:** Out of the sample of 41 assets, 3 assets (7%) had the incorrect location codes on the Oracle Fixed Asset Register Report (FARR) and one item contained an incorrect description. Per ARCC, these assets were moved to San Marcos for a project but a Form 253 was not submitted to change the asset location in Oracle. Additionally, OAAS noted that a file system, with an unclear description of a Mobile Aisle System/Drawing, was difficult to locate since it did not contain an asset tag.
- **Missing Asset Tags:** Out of the sample of 41 capital assets tested, 4 (10%) assets did not have the required asset tags affixed, including the Mobile Aisle System/Drawing previously cited.

According to ARCC, two out of four asset tags were missing due to remodeling and tag being removed for unknown reasons. The remaining two assets (file systems) did not have asset tags affixed at acquisition.

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Most reporting errors were a result of inadequate policies and procedures related to updating the OFAM to reflect acquisitions, dispositions, and adjustments following a physical inventory. In addition, missing asset tags may result in inaccurate inventories due to the inability to confirm whether the sighted item is the item listed on the report.

The County of San Diego Administrative Manual – Item Number: 0050-02-01 (COSD Admin Manual) requires department heads to be responsible for County property (assets). These responsibilities include the identification and control of these assets, the filing of inventories, and the submission of reports as specified by the Board of Supervisors. In addition, the COSD Admin. Manual states that identifying labels should be obtained from Auditor and Controller (A&C) and attached to assets. The County of San Diego Fiscal Year-End Closing Manual requires the department to correct or enter any missing location code numbers to correspond with the physical location of the property using the code numbers established in the location code index.

OAAS Recommendation:

To improve the accuracy and reliability of capital assets reporting, ARCC should:

1. Improve procedures for maintaining accurate recording of all fixed assets, in accordance with the COSD Admin. Manual. This should include, but not limited to:
 - a. Ensuring that acquisitions and dispositions are recorded properly;
 - b. Ensuring that the OFAM contains correct descriptions to properly identify the assets; and
 - c. Ensuring that all capital assets have an asset tag affixed.

Action Plan: *The ARCC concurs with this recommendation. Stricter controls and procedures will be implemented to ensure that all fixed assets are accurately accounted for and all additions, deletions and changes are taken care of in a timely manner. In addition, ARCC will be designating an individual at each branch/area to be responsible for the tracking of all fixed assets. A policy and procedure will be implemented to further improve ARCC's inventory process thus ensuring the accurate and timely reporting of all assets.*

Planned Completion Date: June 30, 2012

2. Strengthen controls over physical inventory process. This should include, but not limited to:
 - a. If new assets are noted at time of physical inventory, a Form 253 should be submitted to the A&C – Project, Revenue and Grants Accounting (PRGA) Division to make the addition to the OFAM; and
 - b. If assets are reported as missing, these assets should be reconciled to the salvage records to determine if the items were sent to salvage. If the asset was sent to Property Disposal, the department should follow-up to determine that the status of the asset is correct in the OFAM.

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Action Plan: *The ARCC concurs with this recommendation. These issues will be addressed in the policy and procedures to be implemented as discussed in Item #1 above.*

Planned Completion Date: *June 30, 2012*

3. Submit a Form 253 to correct discrepancies noted which includes removing missing assets, adding assets, updating locations for all valid assets with location inaccuracies, and change the name of the Mobile Aisle System.

Action Plan:

- **Assets Reported but Not Sighted** – *A letter will be sent to the Auditor and Controller (A&C) to remove the 17 items that were listed as unsighted.*
- **Sighted Items But Not Reported** – *A Form 253 was submitted to A&C to add the three items to the Oracle Fixed Asset Register Report. Tags have been received and assets have been tagged.*
- **Asset Location and Asset Description Inaccuracies** – *A Form 253 was submitted to A&C to correct location codes on the Oracle Fixed Asset Register Report. In addition, a request was made to delete the word "Drawing" on the description of the Mobile Aisle System.*
- **Missing Asset Tags:** *A Form 253 was submitted to A&C to request new fixed asset tags for these equipment. Tags have been received and assets have been tagged.*

Planned Completion Date: *Item #1: September 30, 2011; Items # 2, 3, & 4 Completed.*

Contact Information for Implementation:

*Karen Ochoa, Financial Policy & Planning Officer
Telephone: (619) 531-6249*

Finding III: Minor Equipment Control Procedures Should be Improved

OAAS tested a sample of minor equipment items and noted exceptions in the following areas:

- **Incorrect Amounts Stated on the Minor Equipment Listing:** Out of a sample of 18 minor equipment items, the amounts listed for 5 items (28%) did not reconcile with the invoiced amount. The following discrepancies occurred on the minor equipment listing:
 - One item, a 48" oblong conference table, was overstated by \$1,078 at the Chula Vista location;
 - Two items, a Hitachi projector, was understated by \$2,437, and a paging system was overstated by \$214 at the Kearny Mesa location; and

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- Two items, a JVC television was overstated by \$279 and a safe was understated by \$891 at the El Cajon location.
- Missing County of San Diego Decals: ARCC's workstations at Chula Vista and San Marcos did not have any "County of San Diego" decals affixed to them. According to ARCC's Asset Coordinator, decals are not affixed to any of the workstations.

The errors identified were a result of insufficient controls over the acquisition of minor equipment items. While exceptions noted were immaterial to the minor equipment amount reported in the inventory certificates, insufficient controls over minor equipment could result in misappropriations of County property.

According to the COSD Admin. Manual, department heads are required to maintain listings of minor equipment items for which they are responsible by adding new items as they are received and deleting items that are disposed of or no longer in use. Lists should identify the quantity and nature of the minor equipment items, their location and assigned value. Departmental listings of minor equipment should also provide sufficient information to permit the County to establish appropriate levels of insurance coverage and to prepare claims for insurance recovery in the event of loss.

In addition, COSD Admin. Manual states departments should establish a control system over all minor equipment and affix unnumbered "County of San Diego" decals to these assets.

OAAS Recommendation:

To improve the controls around minor equipment, ARCC should:

1. Implement procedures for maintaining accurate reporting for all minor equipment items within ARCC in accordance with COSD Admin. Manual. This should include but not limited to:
 - a. Ensure that when item is purchased, the invoice amount is recorded on the minor equipment listing and that supporting documentation is maintained to support the amount recorded; and

Action Plan: *The ARCC concurs with this recommendation. A procedure is currently in place, however further improvement will be made to ensure the accurate reporting of minor equipment. Stricter controls and procedures will be implemented to ensure that all minor equipment are accurately accounted for and all additions, deletions and changes are taken care of in a timely manner. In addition, ARCC will be designating an individual at each branch/area to be responsible for the tracking of all assets, including minor equipment. A policy and procedure will be implemented to further improve ARCC's inventory process thus ensuring the accurate and timely reporting of all minor equipment.*

Planned Completion Date: *June 30, 2012*

- b. Correct amounts listed on the minor equipment listing for the items listed above.

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Action Plan: *The cost of the items listed above have been corrected on the minor equipment listing.*

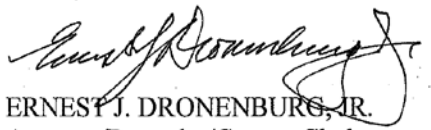
Planned Completion Date: *Completed.*

Contact Information for Implementation:

Karen Ochoa, Financial Policy & Planning Officer

Telephone: (619) 531-6249

The ARCC would like to thank OAAS staff for their time and effort during the audit process, in addition to the recommendations made to further improve the department's process relating to inventory reporting. If further information is required, please contact Karen Ochoa, Financial Policy and Planning Officer, at (619) 531-6249.


ERNEST J. DRONENBURG, JR.
Assessor/Recorder/County Clerk

EJD:KO:ko